CONVERTIBLE FINANCIAL INSTRUMENTS WITH CONTINGENT PAYMENTS

Abstract of Disclosure

A convertible financial instrument provides incentives to holders to keep the instruments outstanding so that issuers maintain flexibility and control over the maturity date of the instrument and the manner in which it is settled. The instrument may provide issuers with the ability to deduct an amount for tax purposes that approximates the true economic cost of the financial instrument. The instrument may contain a provision calling for contingent payments (which may include, for example, contingent interest, preferred distributions, contingent principal, dividends, and other pay-outs) to the holder in some circumstances, which may be based on formulae calculations. For example, this may occur when the trading value of the convertible instrument exceeds a pre-determined value such as, for example, a certain percentage of the accreted value of the convertible instrument, or, for example, another circumstance that may trigger a contingent payment may be when the price of another financial instrument (e.g., the underlying security, the reference security, etc.) is below, higher than, or equal to a pre-determined value.

Figures